

Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 SAM-01 CIAE-00 DODE-00 PM-07 H-03

INR-10 L-03 NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03

SS-20 USIA-15 EB-11 COME-00 INT-08 NIC-01 OMB-01

TRSE-00 DRC-01 /112 W

----- 007372

R 040905Z JUN 74

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 1013

INFO USLO PEKING

AMEMBASSY TOKYO

AMEMBASSY TAIPEI

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E..9. 11652: N/A

TAGS: ETRD JA CH

SUBJECT: PRC PURCHASES JAPANESE STEEL MILL

REF: A. HK A-130; B. HK 759

SUMMARY IN ITS FIRST SUCH ANNOUNCEMENT OF A COMPLETE PLANT PURCHASE, CNNA, JUNE 3, REPORTED THE PURCHASE BY CHINA OF A STEEL MILL FROM JAPAN'S NIPPON STEEL CORPORATION. ALTHOUGH NCNA LEFT OUT SUCH DETAILS, THE PLANT WILL COST \$228.5 MILLION AND BE CONSTRUCTED IN WUHAN. TOTAL PRC PLANT PURCHASES FOR 1974 NOW TOTAL \$685 MILLION AND COULD AGAIN REACH LAST YEAR'S RECORD OF 1.2 BILLION. THE FUTURE OF CHINA'S COMPLETE PLANT IMPORT PROGRAM, HOWEVER, APPEARS UNCERTAIN AND AVAILABLE EVIDENCE IS CONTRADICTORY. END SUMMARY.

1. IN ITS FIRST EVER ANNOUNCEMENT OF A COMPLETE PLANT PURCHASE, NCNA, JUNE 3 REPORTED THE SIGNING IN PEKING OF A CONTRACT WITH JAPAN'S NIPPON STEEL CORPORATION FOR A HOT STRIP STEEL ROLLING MILL. TECHIMPORT GENERAL MANAGER TSUI CHUN AND NIPPON'S CHAIRMAN YOSHIHIRO INAYAMA SIGNED

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THE CONTRACT WITH FOREIGN TRADE VICE MINISTER CHAI

SHU-FAN IN ATTENDANCE. NCNA DID NOT, HOWEVER, GIVE ANY DETAILS ON THE SIZE OR COST OF THE PLANT OR ITS FUTURE LOCATION.

2. A RESULT OF TWO YEARS OF NEGOTIATION, THE CONTRACT IS THE LARGEST EVER SIGNED WITH A JAPANESE FIRM. ACCORDING TO EARLIER JAPANESE REPORTS, THE PLANT WILL CONSIST OF A 3 MILLION TON PER YEAR CAPACITY HOT STRIP STEEL ROLLING MILL AND A 70,000 TON PER YEAR SILICON STEEL PLATE MILL. TOTAL PRICE IS \$228.5 MILLION (64.7 BILLION YEN) WHICH INCLUDES A \$14.5 MILLION (4.7 BILLION YEN) FEE FOR TECHNOLOGY. TERMS ARE FIVE YEARS DEFERRED PAYMENT WITH THE PRICE QUOTED IN YEN. THUS, IN WHAT APPEARS TO BE ANOTHER DEPARTURE FROM CURRENT PRACTICE, THE EXCHANGE RISKS ARE ASSUMED BY THE CHINESE. THE PLANT WILL BE LOCATED IN WUHAN AND IS SCHEDULED TO BEGIN PRODUCTION IN 1977 (NIHON KEIZAI, 5/11/74).

3. IN 1974, CHINESE COMPLETE PLANT PURCHASES HAVE CONTINUED AT A RATE WHICH COULD AGAIN EQUAL LAST YEAR'S RECORD OF \$1.2 BILLION (REF A). DESPITE MOUNTING LEFTIST CRITICISM OF OVER-RELIANCE ON IMPORTED "FOREIGN TECHNOLOGY," PEKING HAS SO FAR SIGNED CONTRACTS FOR 17 PLANTS WORTH AN ESTIMATED \$685 MILLION. PURCHASES ON CREDIT (NINE PLANTS WORTH \$385.5 MILLION) HAVE ALSO MAINTAINED A LEVEL WHICH COULD EQUAL LAST YEAR'S TOTAL OF \$810 MILLION. JAPAN HAS REMAINED CHINA'S PRINCIPAL SUPPLIER SELLING FIVE PLANTS THIS YEAR WORTH \$280 MILLION, OTHER SUPPLIERS INCLUDE FRANCE, WESTERN GERMANY AND THE NETHERLANDS. THE US HAS YET TO SELL ITS FIRST PLANT TO CHINA THIS YEAR.

4. WHILE PURCHASES HAVE CONTINUED, THE FUTURE OF CHINA'S COMPLETE PLANT IMPORT PROGRAM APPEARS UNCERTAIN AND AVAILABLE EVIDENCE IS CONTRADICTORY. ARTICLES PRAISING SELF-RELIANCE AND ATTACKING "WORSHIPPERS" OF "FOREIGN TECHNOLOGY" HAVE REPEATEDLY APPEARED IN THE CHINESE MEDIA. AT THE SAME TIME, NUMEROUS PLANT DEALS BEGUN LAST YEAR REMAIN AT LEAST NOMINALLY UNDER NEGOTIATION. AS EXAMPLES, IN LATE APRIL MONSANTO CORPORATION RECEIVED LIMITED OFFICIAL USE

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A REQUEST FOR FORMAL PRICE PROPOSALS ON FOUR PLANTS. IN MARCH, JAPAN'S SUMITOMO METAL MINING WAS REPORTEDLY WELL ADVANCED IN DISCUSSIONS FOR THE SALE OF A COPPER REFINING PLANT (NIHON KOGYO 3/23/74). RECENT SOUNDINGS AMONG HONG KONG AND PEKING DIPLOMATS, HOWEVER, HAVE PRODUCED FEW INSTANCES WHERE OFFICERS COULD POINT TO NEGOTIATIONS IN WHICH SALES APPEARED IMMINENT. ALSO, TECHIMPORT'S FAILURE TO ATTEND THE SPRING CANTON TRADE FAIR MEANT

THAT THE FAIR DID NOT SERVE AS A FORUM FOR ADVANCING
NUMEROUS PLANT DISCUSSIONS AS IT HAD PREVIOUSLY DONE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: SALES, PROCUREMENT, CONSTRUCTION, TECHNICAL ASSISTANCE, STEEL PLANTS, NEGOTIATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 04 JUN 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: cunninfx
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974HONGK06309
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740141-0626
From: HONG KONG
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740678/aaaacozm.tel
Line Count: 118
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: A. HK A-130; B. HK 759
Review Action: RELEASED, APPROVED
Review Authority: cunninfx
Review Comment: n/a
Review Content Flags:
Review Date: 16 JUL 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <16 JUL 2002 by shawdg>; APPROVED <19 FEB 2003 by cunninfx>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PRC PURCHASES JAPANESE STEEL MILL
TAGS: ETRD, JA, CH
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005